U.S. Department of Transportation
Office of Public Affairs
Washington, D.C.
www.dot.gov/affairs/briefing.htm

Speech

FOCUSING ON FREIGHT

Remarks of
Jeffrey N. Shane
Under Secretary for Policy

15th Annual BreakbulkConference & Exhibition
New Orleans, LA
October 28, 2004

Thank you for the opportunity to speak before this 15th Annual Breakbulk Conference and Exhibition hosted by the Journal of Commerce and the Port of New Orleans. I appreciate the invitation, and am grateful for the opportunity to join you here today on behalf of President Bush and Secretary of Transportation Norm Mineta. My remarks today will focus on some of the things we at the Department have done over the last few years to put trade and logistics issues at the heart of our agenda, but perhaps more importantly on what we can do together in the years ahead.

Transportation in a Global Economy

The global economy in which we now find ourselves profoundly impacts each and every one of us, often in ways that we do not even realize. Few Americans, for example understand how much we really are a maritime nation – relying on maritime transportation for so much that we consume and for so much that we sell to the rest of the world. This ineluctable transition to a globally driven economy presents special challenges, particularly when it comes to having the port, highway and rail capacity necessary to keep these goods moving.

It is important to understand what drives the need for more robust transportation infrastructure and services. Global trade liberalization has been a major pursuit of President Bush and this Administration. Over the last three years, the Bush Administration has negotiated a dozen new free trade agreements, opening markets for a wide range of American exports and giving consumers access to a wider range of competitive options that engender significant economic benefits all across the country. We have also breathed new life into the World Trade Organization's Doha Round of multilateral negotiations and pursued regional trade agreements in places closer to home like Central America.

While our successful trade agenda will bring enormous economic benefits to consumers and economies both here and abroad, it forces us, especially those of us at the Department of Transportation, to remain focused on the need for transportation infrastructure sufficient to handle the increased flow of commerce that these agreements will bring about.

I do not have to sell this group, of course, on the benefits of moving towards a global economy. Every day, you help drive world commodity markets. Your operations are highly complex, moving steel, rubber, forest products, foodstuffs, rolling stock…all breakbulk commodities that represent the fundamental building blocks of the world's economy and the backbone of America's economic future.

Make no mistake: The breakbulk community represented here today is at the forefront in serving our nation's economy, which is evolving rapidly and growing ever more interconnected. Each day you are called upon to adapt to rapidly changing patterns in global logistics, light-speed advances in information technology, double-digit annual trade growth, and transformational changes in overseas markets. All these factors have altered forever the way in which you do business.

Perhaps most importantly from the Department of Transportation's perspective, our economy relies increasingly on seamless connections between all modes of transportation. Port facilities and the highway and rail networks that serve them are critical elements in that system. Unfortunately, in many cases they are being stretched to their limits as they deal with steadily mounting cargo volumes, larger ships, and increased land side congestion. Those of us in government with responsibility for national transportation policy have to be cognizant of your requirements and creative in our approaches to developing increased capacity throughout the system. Increasing capacity or improving operational flows in one mode won't help much if we don't address bottlenecks in another.

Just to give you a sense for what I'm talking about, let me highlight a couple of statistics. In 1970 overseas trade accounted for only 13 percent of U.S. GDP; today it accounts for nearly 30 percent and will rise still further as our trade agreements begin to deliver the more robust commerce they were designed to engender. Our transportation system now carries more than 15 billion tons of freight annually, valued at over 9 trillion dollars, and even the most conservative forecasts suggest that overall freight volumes will grow by another 60 percent by 2020. That is why we are so focused on ensuring that we have the tools we need to ensure that transportation continues to serve as this economy's engine of growth.

"SEA-21": Strengthening our Maritime Transportation System

This explosion of global sourcing and distribution places tremendous pressure on our ports, and will require a great deal of investment from both the public and the private sectors. President Bush understands this perfectly. As he said just a few weeks ago: "To compete in the global economy of the 21st century, the United States needs a maritime policy tailored to 21st century needs." Right here in New Orleans we have a perfect illustration. New Orleans is one of America's leading general cargo ports, handling some 17 million tons of cargo per year. An efficient private breakbulk industry has produced impressive results here, making this port among the largest in the country for shipments of steel, natural rubber, plywood and coffee. In the last 10 years, the Port of New Orleans has invested more than $400 million in new state-of-the-art facilities. These improved breakbulk and container terminals feature new multipurpose cranes, expanded marshalling yards and a new roadway to handle truck traffic. These are investments that are keeping the Port of New Orleans competitive and responsive to its customer base.

Secretary Mineta would like to see that vision replicated in other parts of the country. Unfortunately, you will look in vain for a maritime equivalent of our federal aviation and highway infrastructure programs. In other words, one very important piece of this puzzle has been missing up to now. As a result, our maritime sector often gets overlooked as we focus our attention on our highway, transit, and aviation programs. Secretary Mineta wants to change all that by taking a comprehensive look at how we can put the maritime sector on the national policy agenda more prominently than ever before.

The so-called "SEA-21" review that Secretary Mineta launched earlier this year began with a comprehensive assessment of how our maritime transportation system might move commercial goods more effectively. A number of outside groups, including the Marine Transportation System National Advisory Committee, and the National Academies' Marine Board, have all called for action in this area and urged DOT to take the lead in pursuing a more robust maritime policy. The U.S. Commission on Ocean Policy, for example, has served up a powerful menu of maritime policy recommendations for the Administration to consider.

As we envision it, a SEA-21 package would help pave the way for a far more competitive and efficient maritime sector and improve connections between the various modes. It would emphasize leadership and coordination across the federal government, with DOT and its Maritime Administration playing a leadership role. That is why we are exploring right now whether we can elevate an existing group – the Interagency Committee on the Marine Transportation System – to create a coordination mechanism that is much more robust than what we have at present. To be successful, the participating agencies must be represented at a much higher level in the bureaucratic pecking order to ensure that maritime issues receive the sustained, meaningful attention that they deserve.

SEA-21 will also focus on how we can leverage funds from federal, state and local governments, as well as the private sector, to address the capital needs of the Maritime Transportation System. As our Maritime Administrator, Captain Bill Schubert, knows all too well, we must invest in the future of our ports to ensure that we can continue to compete effectively in the global market. That means all ports, large and small, each of which contributes to the efficient operation of our nation's maritime transportation system.

Finally, earlier this year we carefully examined the tax burdens on our maritime sector, with the goal of improving our fleets' and crews' ability to compete internationally. In that connection, I am happy to report some very good news. Some of the ideas we had been discussing as elements of the SEA-21 package were in fact adopted by Congress and last week were signed into law by President Bush in the American Job Creation Act of 2004. At DOT, we are very excited about this landmark law, which will help level the playing field for U.S.–flag shipping, strengthen our Merchant Marine by providing more American jobs, enhance our national security through increased U.S. military sealift, expand the competitiveness of U.S. flag carriers in the world market, and reduce ship construction costs.
There are four key maritime elements in the new law:

- U.S. merchant marine operators will now have the option of being assessed a tonnage tax rather than the traditional income tax on corporate profits. This will make it much more attractive to flag U.S. and will remove a major competitive disadvantage since most major trading nations, especially in Europe, have already adopted a tonnage tax regime.

- Subpart F of the Internal Revenue Code has been amended to reinstate a key tax option for U.S. investors in "controlled foreign corporations," which will encourage investors to remain U.S.-based companies, helping to ensure that the U.S. has sealift available if there are not enough U.S.-flag vessels at hand.

- For the inland waterway fleet, the Act eliminated the 4.3 cents per gallon excise tax, removing a tax burden from barge operators and allowing them to translate that tax savings into more competitive prices for shippers.

- For U.S. shipyards with naval shipbuilding contracts, an accounting rule change will allow shipyards to further reduce costs, thereby spurring more competitive pricing for shipbuilding in US yards.

We were very happy to see these changes enacted as part of the Jobs act. The maritime industry needs to take a close look at these important tax reforms and ensure that the opportunities they create are exploited properly. The legislation can be expected to put more people to work, make our economy more efficient, and provide shippers with more effective options to move goods into and out of the United States.

Developing an Intermodal Approach

The maritime sector, of course, is only one piece of what is a large, interconnected puzzle we call the intermodal supply chain. Addressing our trade and logistics challenges in an effective way requires that port stakeholder communities and government agencies cooperate in new ways and develop new approaches. Secretary Mineta has insisted that we examine this question not through a series of mode-specific proposals, but rather with an eye towards creating a comprehensive, intermodal freight distribution system. This is the basic principle that has guided us in working to develop federal programs that address the challenges at our ports, as well as the equally important landside system.

One major opportunity to enhance the efficiency of freight movements is the reauthorization of our surface transportation programs. Earlier this month we marked the first anniversary of the expiration of the Transportation Equity Act for the 21st Century – TEA-21 – which provides funding and authorization for the whole array of federal highway, highway safety and transit programs. That anniversary is no cause for celebration. Because Congress was not able to pass a six year bill, DOT now has to work within the constraints of an 8-month extension of the old programs that will last until May 2005.

It is highly regrettable that Congress hasn't finished its work on that legislation. There are important innovations in the Administration's SAFETEA proposal that we want to see passed, and we will continue to urge Congress to adopt those changes in a six-year bill.

For example, we would focus more resources on the intermodal connections between our roads, ports, railways, and airports. We have also proposed a number of new financing tools to better support infrastructure investments, including making highway and freight transfer facilities eligible for private activity bond financing for the first time, and broadening TEA-21's successful "TIFIA" innovative financing program. Finally, we have proposed a requirement that each state appoint a "Freight Coordinator" to help ensure that freight projects receive the proper measure of attention in local and regional planning processes. Realizing the considerable benefits of the Bush Administration's proposals can only come with final congressional action, however. It is important, therefore, that Congress pass a six-year surface transportation reauthorization as soon as possible.

A Near-Term Freight Action Agenda

In the meantime, rather than just waiting for Congress to act, we have worked for the past several months to make sure that we have left no stone unturned -- using our existing statutory authority.

The result of that work is what we call our Freight Action Agenda. It incorporates many recommendations from stakeholders, including the suggestion that we work hard to identify and support nationally significant freight projects at our major transportation gateways. To tackle such projects, the Department is creating Intermodal Project Facilitation Teams to ensure a sustained focus on large, complex, multimodal projects while providing more coordination and leadership from the federal level.

Other items include the development of freight-focused performance measures for our national transportation system; seminars and other programs that will provide training to public sector professionals so they better understand why efficient freight movement is so important to the future of our economy; and finally, encouraging adoption of new technologies in areas like positive train control to ensure safer, more efficient rail shipments throughout the country. We will continue our work in improving coordination among our modes on freight issues, and appreciate the support that our stakeholders across the modes have provided thus far.

Conclusion

I referred earlier to the recently released Oceans Commission report. The Commission recommended that we establish – in the words of a *Journal of Commerce* headline a few weeks ago -- a “clearer voice” within the federal government on maritime policy. Without detracting in any way from the important related missions of our sister agencies, I want to leave you with an ironclad assurance that the U.S. Department of Transportation and its Maritime Administration will indeed provide that clearer voice. The Congress clearly charged the Department with that responsibility, and Secretary Mineta is taking it very seriously.

Make no mistake: Freight and logistics issues have finally taken their rightful place on the national policy agenda. Washington understands the impact of congestion on the national economy, and understands the importance of efficient, interconnected transport to the way business is done today. It is not too much to say that America’s place in the global economy of the future will be determined in large part by the efficiency of our transportation system. We are determined to do all we can to enhance that efficiency.

Thank you for allowing me to share these thoughts with you today. I look forward to a continuing dialogue with the Port on New Orleans and the breakbulk community on these important issues.

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